

(Washington, DC)— In the wake of a nationwide home mortgage crisis, Congresswoman Gwen Moore (WI-4) and Congressman Paul Hodes (NH-2) unveiled legislation today that would protect homebuyers from risky loan practices.

The Homebuyers Protection Act would require all subprime loans to include an escrow account for the life of the loan – just as prime loans do – so that subprime borrowers aren't sacked with a huge tax bill at the end of the year, but rather pay on a monthly basis. These huge tax bills can often contribute to early foreclosures.

The legislation also would help to prevent faulty appraisals – and the higher homeowner taxes that result from them – by requiring a licensed appraiser to appraise all residential homes when a consumer seeks a mortgage. This would also provide assurance to the secondary mortgage market that the home is properly appraised.

"This legislation is about putting the interests of homebuyers first. These safeguards would protect our consumers, but would also benefit the secondary market and our economy," Congresswoman Gwen Moore said. "Buying a home is daunting enough and this legislation would help to protect consumers against risky financial practices that can lead to foreclosures."

"In my home state of New Hampshire, the number of foreclosures this year has already surpassed last year's total," Congressman Paul Hodes said. "Losing your home is an incredibly traumatic event that affects families and their communities. This bill will help protect folks from questionable loan practices and enforce their rights as consumers."

Over the past several months, there has been a spike in home foreclosures. This bill pushes for safeguards in the lending industry to protect the rights and interests of homebuyers.

Legislation Facts:

Ensures that all subprime loans would have an escrow for the life of the loan, just as prime loans do. Because subprime loans do not require escrow accounts, borrowers can be hit with huge tax bills at the end of the year, contributing to foreclosures. The bill would amend the Truth in Lending Act, also known as TILA.

The second part of the bill would require a licensed appraiser to appraise all residential homes when a consumer seeks a mortgage. Currently, licensed appraisers are only required when a federally regulated bank originates the loan. However, with the increase in non-bank mortgages (like warehouse lenders) some loans are not "federally related" and therefore do not require a licensed appraiser.

Without an accurate appraisal, a homeowner would not know the true value of their home and could be taxed at a higher rate by the city. Additionally, if the mortgage is later purchased by an investor on the secondary market, that purchaser would not know the true value of the home either. If a foreclosure occurs, the investor who purchased the debt (mortgage) would be unable to recoup their whole loss since the property was appraised at a higher value than it was actually worth.

The bill would change federal law to require a licensed appraiser in all real estate transactions by amending Financial Institutions Reforms, Recovery, and Enforcement Act 1989, also known as FIRREA.

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